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April 12, 2006

Jennifer J. Johnson
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, DC 20551

Re: **FRB Docket No. OP-1246**; Proposed Interagency Guidance
on Concentrations in Commercial Real Estate; 71 Federal
Register 2302; January 13, 2006

Dear Ms. Johnson:

This letter is in response to the proposed interagency guidance on Commercial Real Estate (CRE). The new proposal is of grave concern to community banks across America and to my bank that serves two of the poorer counties in the Commonwealth of Virginia.

As a community banking organization we operate in a space that is under the radar screen of the largest banks in the country and that without which, many small businesses would not be enabled to survive and thrive. Of the \$200 million in loans on our balance sheet, 93% are secured with real estate. In our world, we know our customers well and we know and understand our real estate market well. This enables banks like ours to lend money to borrowers who sometimes are less sophisticated financially, but whose character and ability to pay are complimented by their willingness to provide real estate as collateral for their loan requests. Currently 28% of our loan portfolio falls into the proposed definition of CRE. This is an area that has been a source of growth for our company, and thus our community. It would be unacceptable for Shore Bank to become restricted in these categories of loans. Small local businesses have been flocking to banks like ours because we understand their operations, their markets, and the risk associated with their financing needs.

I am concerned that the new CRE guidance will tend to quell economic activity in communities like ours, resulting in hardship for our local citizens. They also threaten the very survival of small local financial institutions which have been the life blood of economic development across the nation.

While the intention of these regulations may be well founded, the outcomes could be dramatically different. In order to continue to serve our communities with purpose and to fulfill our missions, community banks may be incited by these regulations to take on

more risk by simply eliminating the collateral which we take as a way to mitigate the risk associated with a loan request. We currently have only 5% of our loan portfolio in unsecured commercial loans. We are comfortable with that level, however the regulations may force us to take on more unsecured risk or forego the ability to serve our communities, customers, and stockholders.

The guidance speaks to both capital and risk management practices. Capital requirements can be quite clear and are either complied with or not. Adequate risk management practices are subject to interpretation, however it is clear from speeches and other communications from regulators that best practices are considered those practices conducted by the biggest banks in the country using the sophisticated technology and monitoring systems. Technology is an excellent tool as are efficient monitoring systems, particularly when you are overseeing thousands of commercial loans across geographic areas as large as the continental United States. Again, the difference in community banks and large banks is the community banks know their markets and their properties. Commercial real estate loans are not just a number on our balance sheet that houses certain risk, they are a relationship that bears watching, must be monitored, but should not be expected to be subject to sophisticated computer models that have built in assumptions that may be as flawed as the assumptions community bankers are making individually with each customer.

Utilizing technology and other systems to enhance risk management sounds completely appropriate. In practice, small community banks in poor communities have neither the resources nor the expertise to embrace many of these expensive systems. What they do have is years of experience in their own markets and a clear understanding of the yard in which they play.

I would encourage you to please reconsider this draconian approach to CRE. These regulations may be well intended, however they appear to be an over reaction on the part of the regulatory bodies.

On behalf of community banks everywhere and Shore Bank on the eastern shore of Virginia and Maryland, I appeal to you to reconsider these regulations and their impact on community banks before implementation.

Thank you for your consideration of my perspective on this matter.

Sincerely,

A handwritten signature in black ink that reads "Scott C. Harvard/vms". The signature is fluid and cursive, with the initials "vms" written in a smaller, more abbreviated style at the end.

Scott C. Harvard
President & CEO